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ABSTRACT

The Government Accounting Office (GAO) conducted an examination of patterns and causes of fraud in Comprehensive Employment and Training Act (CETA) programs to determine how implementation of Job Training Partnership Act (JTPA) programs might be made less vulnerable to exploitation. GAO's investigation found that fraud and abuse in CETA programs often occurred because of weaknesses in internal controls, particularly in accounting and reporting at the service delivery level. JTPA's programs are similar to CETA's in that most funds are spent by locally-based program delivery systems; thus, strong internal controls at service delivery level are needed. A Department of Labor Inspector General (IG) audit of State system designs prior to JTPA implementation revealed numerous weaknesses in the procedures the States planned to use to ensure the adequacy of controls of service delivery area subgrantees. The IG recommended that Labor's Employment Training Administration (ETA) review all the States during the first few months of JTPA operations to determine whether planned procedures and controls were adequately completed and all necessary systems were implemented and working effectively. ETA's follow-up determined that nearly all critical State systems have been developed. As the Department of Labor monitors JTPA in the future, it should verify that the procedures have been fully implemented and work effectively. (CMG)

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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To Senator Sam Nunn, Ranking Minority Member, Permanent Subcommittee On Investigations, Senate Committee On Governmental Affairs

Strong Internal Controls At Service Delivery Level Will Help Prevent CETA- The Fraud And Abuse In Job Training Partnership Act Programs

GAO has found that fraud and abuse in the Comprehensive Employment and Training Act (CETA) programs often occurred because of weaknesses in internal controls, particularly in accounting and reporting at the service delivery level. The Job Training Partnership Act (JTPA), a multibillion dollar program, has replaced CETA. The two programs are similar in that most funds are spent by locally-based program delivery systems.

A Department of Labor Inspector General (IG) audit of state system designs prior to JTPA implementation revealed numerous weaknesses in the procedures the states planned to use to ensure the adequacy of controls of service delivery area subgrantees. The IG recommended that Labor's Employment Training Administration (ETA) review all the states during the first few months of JTPA operations to determine whether planned procedures and controls were adequately completed and all necessary systems were implemented and working effectively. ETA's follow-up determined that nearly all critical state systems have been developed. As Labor monitors JTPA in the future, it should verify that the procedures have been fully implemented and work effectively.

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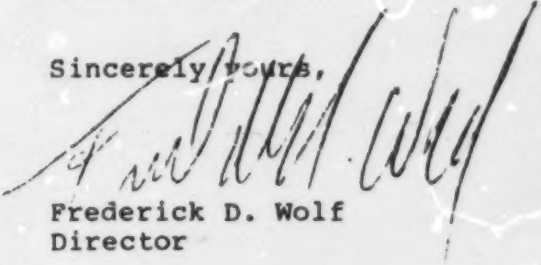
The Honorable Sam Nunn
Ranking Minority Member
Permanent Subcommittee on
Investigations
Committee on Governmental
Affairs
United States Senate

Dear Senator Nunn:

This report is in response to your letter requesting that we review fraud in the Comprehensive Employment and Training Act (CETA) programs to determine patterns and underlying causes. The purpose was to identify ways new job training programs, specifically those under the Job Training Partnership Act (JTPA), should be organized and managed to prevent similar problems. The report identifies areas, based on a detailed analysis of CETA fraud cases, where the Department of Labor should focus its oversight of the states' implementation of JTPA programs to reduce the vulnerability to criminal exploitation.

As arranged with subcommittee staff, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of the report. At that time, we will send copies to the Director of the Office of Management and Budget, the Secretary of Labor, and other interested parties.

Sincerely yours,


Frederick D. Wolf
Director

REPORT TO SENATOR SAM NUNN,
RANKING MINORITY MEMBER,
PERMANENT SUBCOMMITTEE ON IN-
VESTIGATIONS, COMMITTEE ON
GOVERNMENTAL AFFAIRS,
UNITED STATES SENATE

STRONG INTERNAL CONTROLS AT
SERVICE DELIVERY LEVEL WILL
HELP PREVENT CETA-TYPE FRAUD
AND ABUSE IN JOB TRAINING
PARTNERSHIP ACT PROGRAMS

D I G E S T

This report responds to a request from the Ranking Minority Member, Permanent Subcommittee on Investigations, Senate Committee on Governmental Affairs, that GAO conduct an examination of fraud in federally sponsored employment and job training programs. He asked that GAO identify patterns and causes of fraud in the Comprehensive Employment and Training Act (CETA) programs and determine whether the Job Training Partnership Act (JTPA) programs will have similar vulnerabilities to criminal exploitation.

CETA programs, which expired September 30, 1983, were the nation's largest and most costly employment and job training programs. From 1973 to 1983, funding exceeded \$60 billion.

JTPA replaced CETA on October 1, 1983. Its purpose is to prepare youth and unskilled adults for entry into the labor force and to provide job training to economically disadvantaged individuals and others facing serious barriers to employment. About \$2.8 billion was appropriated for these programs during the initial 9 month transition period, October 1, 1983, through June 30, 1984. Funding for the first full program year, July 1, 1984, through June 30, 1985, exceeds \$3.6 billion.

Unlike CETA, the new program relies heavily on the private sector to determine the skills needed and the best approach for training participants. Also, under JTPA the 57 states and territories replaced cities, counties, and consortia as the grantees responsible for direct oversight of the subgrantees. An important similarity between JTPA and CETA is that most funds are spent at the local level by locally-based program delivery systems.

FRAUD AND ABUSE IN THE CETA PROGRAM

GAO's analysis of a sample of CETA fraud cases for fiscal years 1981 and 1982 showed that fraud and abuse:

--Was most often detected in the CETA Classroom/ On-the-Job Training and Transitional Employment, Public Service Employment, and Youth Programs (Titles II, VI, and IV, respectively). (See page 5.)

--Most often occurred at the subgrantee level and primarily involved subgrantee personnel or CETA participants. (See page 7.)

The fraud and abuse that occurred in CETA resulted largely because of weak internal controls in the accounting and reporting functions of the organizations providing CETA services. For example:

--A subgrantee employee was able to embezzle almost \$42,000 because he had complete control over the entire payroll process. (See page 11.)

--A subgrantee chief financial officer was able to embezzle almost \$750,000 over a 3-year period because of lack of separation of duties. (See page 11.)

GAO also noted that the Labor inspector general (IG) could better inform the Congress and agency head about fraud and abuse if improvements in his fraud data base were made. Specifically, his information system

--did not include the results of investigations conducted by state and local prosecutors, and

--did not always specify the type of fraud or abuse that occurred or whether a conviction resulted. (See page 12.)

MONITORING JTPA PROGRAMS TO ASSURE EFFECTIVE CONTROLS AT THE SERVICE DELIVERY LEVEL

Adequate internal controls are important at all levels but especially at the service delivery level under JTPA to assure that job training funds are adequately safeguarded from fraud and abuse. In keeping with its role to oversee the states' compliance with the act, Labor took some positive actions to assure the adequacy of controls prior to JTPA implementation.

In August 1983, Labor's IG audited the JTPA implementation plans of each of the 50 states and seven other entities. The IG's audit found numerous weaknesses in the states' plans to assure the adequacy of controls of their service delivery area subgrantees. For example:

--Twenty-five of the 57 systems needed improvement in preparing clear and enforceable contracts or grants with service delivery entities.

--Thirty-nine of the systems needed improvement in both monitoring and auditing the financial and programmatic performance of subgrantees. (See pages 14-15.)

The IG recommended that Labor's Employment and Training Administration (ETA) review all the states during the first few months of JTPA operations to determine whether planned procedures and controls were adequately completed and whether all necessary systems were implemented and working effectively. (See page 15.)

ETA followed up on the IG's audit and found that nearly all critical systems have been developed, but at the time of GAO's audit ETA had not yet verified that the procedures were fully implemented and working as recommended by the IG. (See page 15.)

CONCLUSIONS AND OBSERVATIONS

GAO does not make recommendations in this report because of the relative newness of the JTPA. The conclusions and observations are based on lessons learned from CETA.

The fraud and abuse problems that hampered the effectiveness and adversely affected the public perception of CETA were due largely to weak internal controls primarily in the accounting and reporting functions at the subgrantee level. While JTPA differs from CETA in many respects, under both acts funds are spent by locally-based service providers.

GAO believes that ETA must assure itself that the controls at the JTPA service delivery level are adequate to prevent fraud and abuse. To attain this assurance, future monitoring by ETA should verify that the state procedures to review the adequacy of subgrantee controls have been fully implemented and are working effectively. (See page 16.)

GAO also believes the Labor IG could more effectively fulfill his responsibility to report fraud to the agency head and the Congress if his data base included cases investigated by local prosecutors, and if it is updated with information gathered during an investigation so that fraud-related data will be properly classified.

AGENCY COMMENTS

In commenting on a draft of this report, Labor indicated that a compliance review system that is responsive to GAO's concerns about future oversight is being established. It will address pertinent functions such as financial and cash management, state monitoring systems and audit plans, management information systems, procurement management, program limitations, eligibility determinations, and grievance procedures. While the compliance review will focus on state systems, Labor also indicated that it will conduct sample reviews at the service delivery level to verify that the states' requirements are in fact in place and functioning.

In response to GAO's concerns about the weaknesses in the IG fraud data base, Labor indicated the system has been refined to ensure that the type of fraud or abuse occurring is accurately classified and cases are tracked through final disposition. Labor also stated that while the GAO suggestion to include data on cases investigated by state and local officials has merit, there is no feasible way to be aware of all fraud cases, or to capture the data, unless the Labor IG is involved in the investigation.

While GAO recognizes that it may be difficult to obtain information on every case, the IG's data base would be greatly enhanced if information on JTPA fraud and abuse obtained from various sources was included. ETA's incident reporting system requires the states, service delivery areas, recipients, subrecipients, and Labor officials to report all instances of JTPA fraud and abuse to the Labor IG. This system and other sources of information could provide leads on JTPA fraud and abuse cases investigated by others. These cases could be monitored by the IG. (See pages 16-18.)

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ABBREVIATIONS

CETA	Comprehensive Employment and Training Act
ETA	Employment and Training Administration
GAO	General Accounting Office
IG	Inspector general
JTPA	Job Training Partnership Act
L bor	Department of Labor
SDA	Service Delivery Area

CHAPTER 1

INTRODUCTION

The Ranking Minority Member, Permanent Subcommittee on Investigations, Senate Committee on Governmental Affairs, requested that we review fraud in the Comprehensive Employment and Training Act (CETA) programs to determine patterns and underlying conditions that allowed fraud to occur. The Senator noted that the frequent and highly publicized allegations of fraud in CETA adversely affected its public support and significantly damaged the program. Consequently, the Senator is interested in ways new job training programs, such as the Job Training Partnership Act (JTPA), effective October 1, 1983, should be organized and managed to reduce their vulnerability to criminal exploitation. We were also requested by subcommittee staff to identify CETA fraud cases not included in the data base of the Department of Labor (Labor) inspector general (IG).

BACKGROUND

CETA programs provided job training and jobs for millions of economically disadvantaged, unemployed, and underemployed people. From CETA's inception in December 1973 to its termination on September 30, 1983, over \$60 billion was spent on the programs administered by Labor's Employment and Training Administration (ETA). In fiscal year 1983, ETA provided grants to over 470 state and local governments (called prime sponsors) for designing, managing, and sometimes carrying out local employment and training programs. States, and cities or counties with populations of at least 100,000, were eligible for grants directly from ETA. Consortia of smaller local governments could qualify as grantees or be served by the state government. Most prime sponsors divided their grants among public and private organizations, "subgrantees," that provided most of the actual training and employment. An estimated 50,000 or more subgrantees participated in CETA programs.

ETA officials reviewed and evaluated the prime sponsors' and subgrantees' performances by

- using periodic reports to make an annual assessment,
- conducting periodic on-site monitoring, and
- requiring periodic financial and compliance audits.

Audit reports prepared by state auditors or public accounting firms were reviewed to determine whether the audits were properly performed and grantee operations were being carried out properly.

While JTPA's goals are similar to those of CETA, many of the means to achieve them have changed. Under JTPA, the 57 states and territories replaced cities, counties, and consortia as the

grantees responsible for direct oversight of the subgrantees. In addition, private industry has a large role. Governors must

--establish an advisory state job training coordination council,

--designate geographic areas as the "Service Delivery Areas" (SDAs) where programs will be established, and

--certify a "Private Industry Council" (PIC) for each SDA.

PICs play a key role in JTPA because they are responsible for SDA monitoring and oversight, setting policy, and providing guidance with respect to activities relating to the job training plan in the SDA. All of this is done in partnership with local government organizations within the SDA. The PIC and the local government officials must determine the process for selecting the service providers, including how the selection will be made, and by whom. The service providers can be the PIC, a unit of local government within the SDA, a profit or non-profit private organization or corporation, or any other entity.

The EIA monitors the JTPA programs and administers, at the national level, special jobs and training programs for Native Americans, migrants, and other groups with special employment needs. Activities authorized under JTPA will operate on a "program year" of July 1 through June 30 rather than the standard federal fiscal year (October 1 - September 30). JTPA programs operated initially under a 9-month appropriation of about \$2.8 billion for the period October 1, 1983, through June 30, 1984. JTPA's appropriation for program year 1984 totaled \$3.6 billion, with about \$2.8 billion allocated to state-run programs and \$800 million to federal level programs. (See appendixes II and III for both CETA and JTPA organizational charts.)

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our examination were to (1) analyze certain characteristics of fraud in the CETA program, (2) determine the underlying causes or management weaknesses that allowed fraud and abuse to occur, and (3) ascertain whether adequate attention had been given to the causes of CETA fraud in implementing JTPA.

To analyze the characteristics of CETA fraud, we selected from the records of Labor's IG cases which were opened during fiscal years 1981 or 1982¹ and closed as of January 31, 1983. From this universe of 287 cases, we selected 154 cases (54 percent) for further review. We chose cases investigated in the Atlanta, Dallas, San Francisco, and New York regions. The first three regions were chosen because they had the largest number of cases

¹CETA outlays for these years totaled \$7.7 and \$4.1 billion, respectively.

investigated during this time period--26, 50, and 62, respectively. The New York region was chosen because the 16 cases it investigated appeared to be inordinately small.

After talking with selected state and local prosecutors, we identified 35 fraud cases which had been investigated by New York City officials during the same period under review but were not included in the IG's data base. From those, we included in our review 19 where specific dollars lost or misused were identified. Accordingly, we analyzed 173 out of a universe of 322 cases.

To determine the underlying causes of CETA fraud we first analyzed the cases selected for review to determine if they were substantiated. (For purposes of this review a substantiated case is one where problems were uncovered, such as criminal activity, abuses resulting from misuse of funds, or violations of CETA regulations.) We identified a total of 117 substantiated cases; 98 investigated by the IG and 19 investigated by New York City officials.

To identify the characteristics of each case, we reviewed investigative case files, interviewed IG investigators, state and local CETA representatives, and New York City officials, as well as ETA officials who were responsible for monitoring CETA grantees. We reviewed each case to determine the type of fraud or abuse, where it occurred, who committed it, how much money was lost or misused, how many convictions were made, and which CETA titles and programs were most affected. In addition to reviewing the case files to determine underlying causes, we reviewed grantee audit reports and interviewed ETA and IG officials, as well as state and local officials who were involved in the CETA programs being investigated.

With regard to the implementation of JTPA, we reviewed the Labor approved Governor's Coordination and Special Services Plan for each state, held discussions with ETA and IG officials, and visited eight states--Georgia, Florida, Texas, Louisiana, California, Nevada, New York, and New Jersey--to discuss their implementation plans. We also reviewed the results of the IG's review of the states' JTPA development plans to determine if weaknesses existed in state systems for managing JTPA operations.

Our review was performed in accordance with generally accepted government auditing standards. We are not making recommendations in this report because of the relative newness of the JTPA program. However, we do present our conclusions and observations based on lessons learned from the CETA program and Labor's efforts to assure the adequacy of controls under JTPA.

CHAPTER 2

FRAUD AND ABUSE IN THE CETA PROGRAM

Our analysis of 117 substantiated investigations revealed both the characteristics of CETA fraud and abuse and some of the underlying causes. Our review also showed that the IG could more effectively fulfill his reporting requirements under the IG act if his data base included information on fraud cases investigated by local officials and more accurately depicted the results of IG investigations.

CHARACTERISTICS OF CETA FRAUD AND ABUSE

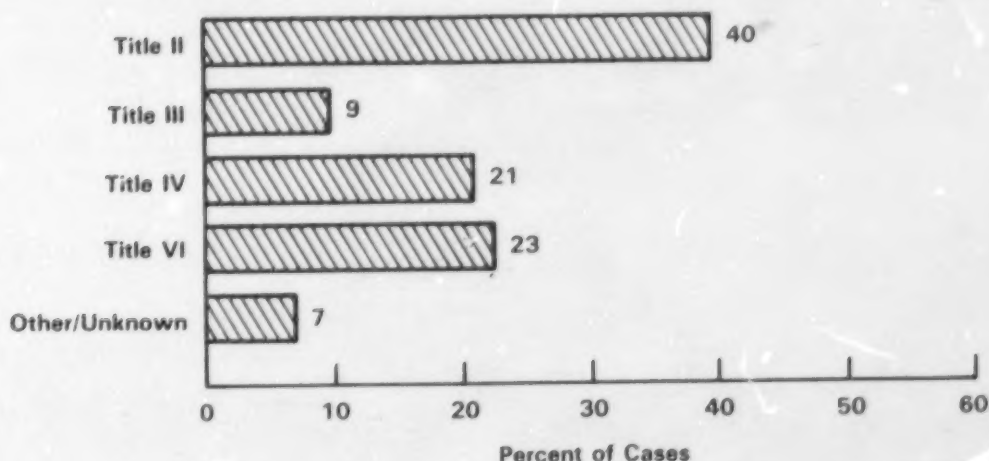
We categorized CETA fraud and abuse by title, type, where the fraud occurred and who committed it, length of time ongoing, dollars lost or misused, and the number of convictions obtained. We found that fraud and abuse in the CETA cases we sampled

- was most often detected in CETA Classroom/On-the-Job Training and Transitional Employment, Public Service Employment, and Youth Programs (Titles II, VI and IV respectively),
- most often involved false statements made by contractors and training recipients, violations of CETA regulations, and embezzlements,
- most often occurred in organizations providing CETA-related services and involved subgrantee personnel and CETA recipients,
- often continued for extended periods of time,
- resulted in convictions in about 30 percent of the cases referred for prosecution, and
- involved about \$6 million lost or misused.

Titles and programs most affected

Chart 1 shows the CETA programs with the highest percentage of fraud and abuse.

CHART 1
PERCENT OF 117 CETA FRAUD AND ABUSE CASES BY TITLE



The fraud and abuse in most of the Title II cases (46 out of 47) occurred in two programs--services for the economically disadvantaged (32 cases) and transitional public service employment (14 cases). The former involved services such as classroom and on-the-job training as well as job search assistance and other support activities. These CETA services most closely resemble those being provided by the state-run programs under JTPA. The latter involved employment in public service for economically disadvantaged individuals who lacked the necessary skills and/or experience to enable them to successfully compete in the labor market. This program combined public service employment with other employment activities including employability counseling and job search assistance.

Title VI, Public Service Employment, which accounted for the next highest concentration of fraud and abuse (23 percent), was established to provide temporary employment in the public sector for unemployed eligible persons during periods of high unemployment. Under this title, Labor funded employment in state and local governments where participants could obtain training and counseling. Most of the funds were used for wages and fringe benefits.

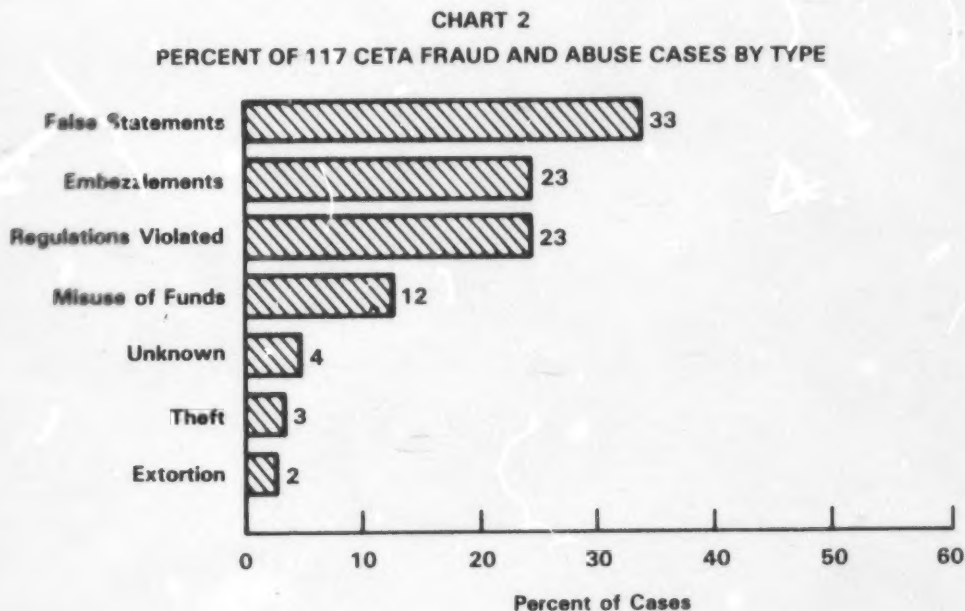
About 21 percent of the fraud and abuse cases occurred in the Title IV Youth Programs of CETA. Within this title, the Job Corps and Summer Youth Programs had the largest number of cases totaling 13 and 9, respectively, with the remaining 2 cases occurring in demonstration programs.

Approximately 9 percent of the fraud and abuse cases we reviewed occurred in CETA Title III. Ten out of 11 of these cases

occurred in programs providing training and employment services for Native Americans, migrant farmers, and older workers.

Types of fraud and abuse

We found that the most prevalent types of wrongdoing identified in the investigations involved false statements, embezzlements, misuse of CETA funds or employees, and other violations of CETA regulations. As shown in chart 2, these activities accounted for over 90 percent of all the cases.



False statements, which accounted for 33 percent of the cases, were given by contractors and participants. Contractors, providing training-related services, committed half of these violations by submitting false information about costs, such as payroll, purchases, and travel expenses. One subgrantee, or contractor, submitted for reimbursement fictitious information concerning gasoline and other automotive expenses.

Embezzlement was found in about 23 percent of the cases reviewed. In one case an employee of a subgrantee devised a method to transfer \$12,720 in CETA funds into a non-CETA bank account of the local public school system. The employee, over a 10-month period, cashed checks on the account for \$11,226 and converted the funds to her personal use.

Violations of CETA regulations, such as nepotism, conflict of interest, commingling of funds, and improper procurement practices,

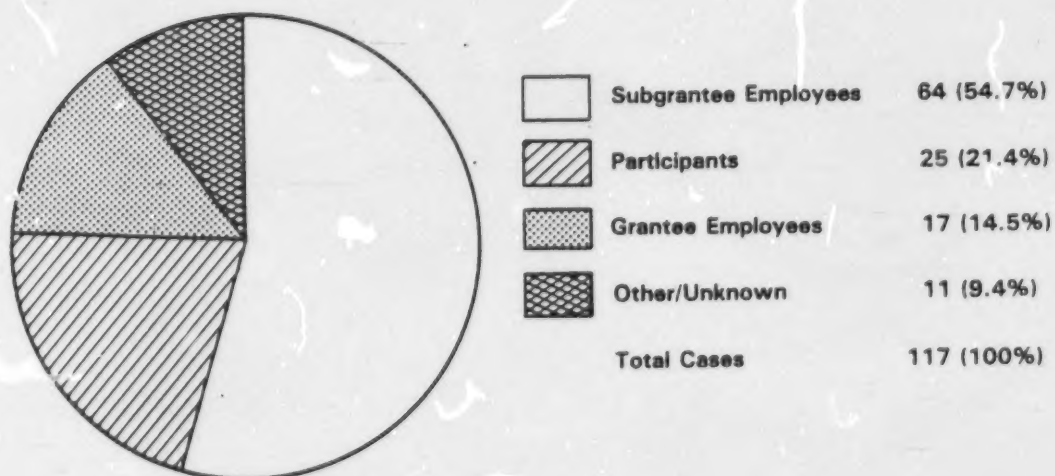
made up about 23 percent of the cases we reviewed. One case involved a subgrantee who entered into sole-source agreements with a leasing company for equipment, computer software, and services for a research and development project, in violation of CETA regulations regarding competitive leasing. Moreover, a potential conflict of interest existed in these transactions because members of the leasing company's board of directors were also on the subgrantee's board of directors. Because of these infractions, costs totaling \$50,396 were disallowed.

Misuse of CETA funds or employees accounted for about 12 percent of the cases. This kind of activity was discovered at one subgrantee site when the director resigned the day after a routine investigation was announced. The investigation disclosed that CETA funds were used for loans and advances to employees. The same investigation revealed that accounting records had not been posted for almost 6 months, bank reconciliations had never been made, and there were poor controls over the recording of time worked.

Where fraud and abuse occurred
and who committed it

We found that fraud and abuse was most often committed at the level where CETA services were actually provided and primarily by the employees of organizations providing services. About 55 percent of these instances involved subgrantee employees; about 21 percent, training participants; and 14 percent, grantee personnel, as shown in chart 3.

CHART 3
PERPETRATORS OF CETA FRAUD AND ABUSE



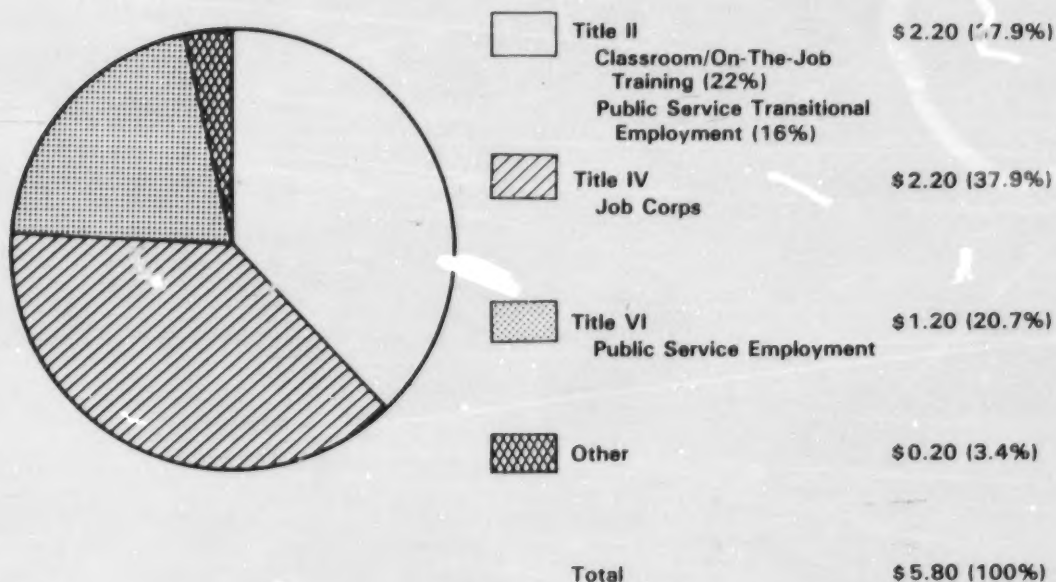
Time elapsed and costs
of fraud and abuse

Fraud and abuse in the CETA program often went undetected for extended periods of time. In almost 55 percent of the 103 cases where we could determine the time elapsed, fraud and abuse had continued for seven months or more. In addition, over 40 percent continued for a year or more, at a cost of almost \$4.8 million. In cases continuing for less than a year, about \$343,000 was lost or misused.

Our review disclosed that fraud and abuse sometimes continued for long periods of time because of weak internal controls. For example, in one case a subgrantee executive director forged 11 checks totaling over \$3,700 during a 3-year period. Audits conducted during this period continually pointed out lax management practices and inadequate internal controls over expenditures. In another case involving the embezzlement of \$2,600 in travel funds over almost a 2-year period, auditors found that contrary to generally accepted accounting procedures, air fare receipts were not required prior to reimbursement of travel costs.

In 102 out of the 117 cases of fraud and abuse for which the costs had been estimated, about \$6 million was lost or misused. As shown in chart 4, most (97 percent) of the losses occurred in programs under Titles II, IV, and VI.

CHART 4
DOLLARS (MILLIONS) LOST/MISUSED BY CETA TITLE



With regard to the types of fraud and abuse that resulted in misuse or loss of dollars, we found that violations of regulations accounted for almost \$3.7 million, or 65 percent of the dollars. Embezzlements resulted in about 14 percent, improper use of funds or employees accounted for about 10 percent, and false statements, about 8 percent.

CETA fraud convictions

Out of the 117 substantiated investigations, 66 were referred for prosecution. Of these, 35 were accepted, resulting in 22 convictions with 8 actions pending at the time of our review. The following table shows the convictions by type of fraud and abuse in those 22 cases:

<u>Type of fraud and abuse</u>	<u>Cases with convictions</u>
Embezzlements	12
False statements	4
Improper use of funds	5
Theft	<u>1</u>
Total	<u>22</u>

In the 21 convictions for which data regarding the role of the perpetrator were available, we found that convictions were obtained against subgrantee employees in 15 cases, participants in 3, and grantee employees in 3.

UNDERLYING CAUSES OF CETA FRAUD AND ABUSE

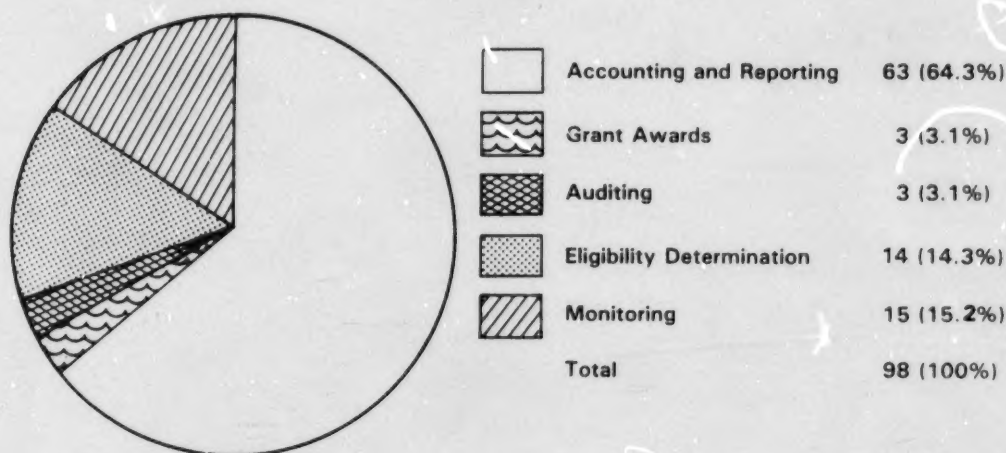
The instances of fraud and abuse reviewed in our study resulted largely because of weak internal controls within the organizations delivering CETA services, primarily in the accounting and reporting functions.

Internal controls are the plans of organization, the methods, and procedures used by management to ensure that resource uses are consistent with laws, regulations, and policies; that assets and other resources are safeguarded against waste, loss, and misuse; and that revenues and expenditures are recorded and accounted for properly so that reliable financial and statistical reports may be prepared and accountability of the assets maintained. Good internal controls serve as checks and balances to prevent fraud, waste, and abuse. They should not be viewed as separate, specialized systems, but rather as an integral part of each system that management uses to regulate and guide its operations. In this sense, internal controls are management controls.

Previous GAO reports² have pointed out that weak internal controls made CETA susceptible to fraud, waste, and abuse. Moreover, a joint Labor IG and ETA study on the history of CETA showed that management and administration of CETA had received severe criticism because of fraud, waste, and abuse problems. The study indicated that very little attention had been given to management systems and financial controls because the pervasive attitude of program officials was to get the money out and worry about program management later.³

Internal controls can be described by the function performed, such as the grant award process, eligibility determination, accounting and reporting, monitoring, and auditing. Chart 5 shows the distribution of the 98 internal control weaknesses we identified in 70 (60 percent) of the 117 cases studied.

CHART 5
CETA INTERNAL CONTROL WEAKNESSES BY TYPE



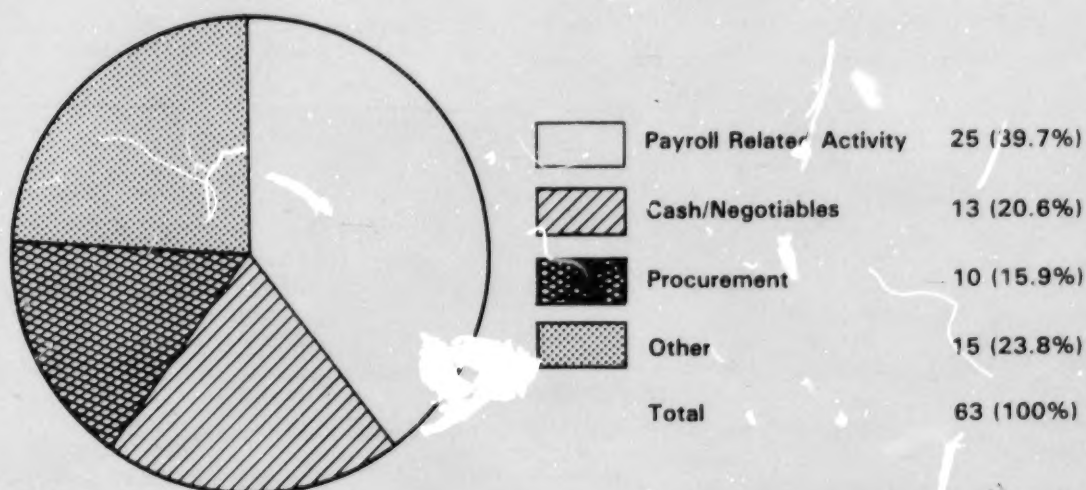
As noted in chart 5, accounting and reporting weaknesses constituted 64 percent of the control problems leading to fraud and abuse. The accounting and reporting category includes accounting for, documenting, and reporting on appropriate transactions. It includes procurement, management of cash and other negotiable instruments, property management, payroll, and travel. Within the

²Weak Internal Controls Make the Department of Labor and Selected CETA Grantees Vulnerable to Fraud, Waste, and Abuse, AFMD-81-46, March 27, 1981; and Improvements Can Be Made in the Fiscal Management of CETA, HRD-82-53, April 9, 1982.

³Audit, Fraud, Abuse, Management Problems in CETA; The Past, the Present and the Future, Feb., 1982.

accounting and reporting category, the most problems were found in controls over payroll-related activities, cash and negotiable instruments, and procurement, as chart 6 shows.

CHART 6
ACCOUNTING AND REPORTING WEAKNESSES BY TYPE



Weaknesses in payroll-related activities constituted almost 40 percent of the accounting and reporting weaknesses. An example of what can result from weaknesses in this area involved a subgrantee counselor who, because of a lack of separation of duties, was able to steal almost \$42,000 in CETA funds. The counselor had complete control over the payroll process, including initiating the issuance of checks, completing time and attendance reports, picking up the checks from the prime sponsor, and distributing them to participants. The counselor added nonexistent participants to the payroll and cashed the checks issued to them.

An instance that demonstrates poor controls in the next most predominant category of weaknesses, management of cash and negotiable instruments, also resulted because of a lack of separation of duties. A subgrantee chief financial officer was able to embezzle about \$750,000 over almost three years by forging a supervisor's name, altering checks after they were signed, or completing checks that were presigned for emergency purposes. He was also responsible for reconciling the monthly bank statement.

An example of a procurement weakness involved the purchase of computer equipment. A grantee employee purchased over \$260,000 worth of computer equipment by handling the entire transaction himself, from placing the order, through payment of the vendor. In another instance, this same grantee purchased over \$43,000 worth of equipment which was used primarily for non-CETA purposes. In

addition to not segregating purchasing duties, the grantee violated both Labor's and its own procurement regulations which required prior approval by a Labor grant officer of equipment purchases over \$1,000.

IMPROVEMENTS NEEDED IN FRAUD DATA BASE OF LABOR INSPECTOR GENERAL

The Labor IG did not have a reliable data base on fraud cases in the CETA program. This weakness, if continued under JTPA, could adversely affect the program's implementation because, although states administer the new jobs program, the Labor IG is responsible under the Inspector General Act of 1978 (Public Law 95-452) for preventing and investigating fraud and abuse in all Labor programs, as well as reporting this to the Congress and the agency head.

The computerized fraud data base of the Labor IG, established in 1979, includes only information on cases investigated by the IG's office. We found, for example, that the 35 CETA-related New York City fraud cases investigated by city officials were not included. In dollar value, these cases were more significant than the IG investigations conducted in the New York region during the same time period. In the 19 non-IG cases where monetary value could be determined, almost \$1 million was lost or misused, while the 16 IG cases represented about \$100,000. When we discussed this with a high-level IG official, we were advised he was not aware of these cases and that similar situations may exist in other large cities where the agency has had difficulty in hiring investigators.

We also found that the data on IG investigations did not always specify the type of fraud or abuse that occurred and whether a conviction resulted. Over one-third (99 of the 287) of the cases we reviewed did not have the type of fraud listed; "other" was frequently used. We also found 5 out of 21 convictions in IG cases (24 percent) had not been noted in the data base.

We were informed that the IG investigators are now in the process of correcting this oversight. In those cases where conviction data was inaccurate, we were told that IG staff routinely update conviction data quarterly. However, feedback on convictions is not always provided to the IG by those prosecuting the cases. We suggested to the Assistant Inspector General for Investigations that his data base on fraud cases could be enhanced by including and tracking JTPA fraud investigations initiated by state and local officials.

In commenting on a draft of this report, Labor stated that while this suggestion had merit, there is no feasible way to be aware of all fraud cases and to capture the data unless the Labor IG was involved in the investigation. While we recognize that it may be impossible to obtain information on every case, the IG's data base would be greatly enhanced if information obtained from various sources, such as the ETA incident reporting system, was used.

CHAPTER 3

MONITORING JTPA PROGRAMS TO ASSURE EFFECTIVE CONTROLS AT THE SERVICE DELIVERY LEVEL

The Job Training Partnership Act requires oversight and monitoring at the federal, state, and local levels. Labor must monitor compliance by the states, and states must assure that effective internal controls are operating at both the state and local levels. In addition, various organizations within each state, including PICs, chief local elected officials, and the state job training coordinating councils, must monitor and oversee the local operation of JTPA programs. Essentially, the Secretary of Labor is authorized to investigate any matter deemed necessary to determine the extent of recipients' compliance with the JTPA. Section 163 of the act states that the secretary "is authorized to monitor all recipients of financial assistance under this act to determine whether they are complying with the provisions of this act. . . ."

The JTPA requires strong internal controls with specific oversight responsibilities for states. Section 164(a)(1) stipulates that "each state shall establish such fiscal control and fund accounting procedures as may be necessary to assure the proper disbursement of, and accounting for, federal funds. . . ." In addition, the legislation requires the chief local elected officials, the private industry councils, and the governors, to review and approve local controls of SDA organizations described in job training plans. These plans should include, among other things, as spelled out in section 104 of the JTPA, "fiscal control, accounting, audit, and debt collection procedures to assure the proper disbursement of and accounting for funds. . . ." The law further states that the governor shall not approve job training plans if he finds inadequate safeguards for the protection of funds.

While the JTPA gives the states primary responsibility to administer the programs, it recognizes and requires that the Labor inspector general perform his duties under the IG Act of 1978 (Public Law 95-452). He is responsible, in part, for

- conducting and supervising investigations of agency operations,
- providing leadership in developing and coordinating activities to prevent fraud and abuse,
- recommending policies to prevent and detect fraud and abuse, and
- keeping the agency head and the Congress fully informed of problems and deficiencies.

In carrying out his responsibilities, the Labor IG conducted a review just prior to JTPA implementation to determine if the states

would have systems to comply with the act and to safeguard funds from fraud, waste, and abuse. The IG's audit had three primary objectives: (1) to determine if procedures for monitoring SDA grant recipients/service providers were adequate to ensure compliance with the JTPA, (2) to determine if procedures and controls for self-evaluation were adequate, and (3) to determine if the states had procedures and controls in effect to ensure that audits of themselves and their SDAs were promptly and adequately made, audit findings were promptly and appropriately resolved, and audit reports were appropriately distributed. The IG's audit was limited to the systems the states planned to use and it did not include systems at the service delivery level. The audit disclosed weaknesses in planned operations which, if left uncorrected, could reduce the assurance that JTPA funds will be adequately protected from fraud and abuse.

The IG issued each state an individual report on problems he found and the corrective action recommended. IG officials told us the states generally agreed to correct the problems noted but they were not required to respond formally about actions taken to correct the problems.

Many of the problems the IG noted were similar to problems found in the CETA programs. In the area of subgrantee oversight, over two-thirds (39) of the states' systems needed improvement in monitoring and auditing the financial and programmatic performance of SDA subgrantees. For example, one state had not developed

- specific review guides for evaluating SDA monitoring activities (auditing, financial management, eligibility, matching, property, electronic data processing, and contracting);
- self-evaluation procedures to address planning reviews, review guides, reporting, resolution, and follow-up;
- auditing procedures to address the type of audit, reporting, resolution, follow-up, debt collection, and organizational structure; or
- procedures requiring prompt corrective actions when system weaknesses are identified, or prompt notification of the Labor IG when fraud is disclosed.

Another state's written monitoring procedures needed strengthening in

- desk reviews of financial and statistical reports,
- survey questions on financial management, eligibility of participants, matching requirements, and electronic data processing, and
- determining the adequacy of participant records.

Monitoring, self-evaluation, and auditing procedures are essential if the governors are to carry out their oversight responsibilities effectively. These management systems are valuable in identifying systemic problems because they provide feedback independently of each other.

Twenty-five of the state systems needed improvement in preparing clear and enforceable contracts or grants with service delivery entities. For example, one state did not plan to require SDA subgrantees to include important internal control information in job training plans explicitly required by the act, such as

- "procedures for identifying and selecting participants and for eligibility, determination, and verification;" and
- "fiscal control, accounting, audit and debt collection procedures to assure the proper disbursement of, and accounting for, funds received under this title."

Another state's system for awarding contracts was weak because it did not provide for, among other things, separation of duties to assure adequate internal control. If contract and grant agreements with SDAs' are unclear or they contain provisions that are unenforceable, neither the state nor federal governments will be able to hold the SDAs' responsible for compliance with the act.

The IG reported the overall results of his audit to ETA on September 30, 1983. He disclosed that only 4 of the 57 entities reviewed were ready to begin program operations effectively. Forty-four entities could be ready if they completed draft procedures and planned developmental work as promised. Nine entities would have to work extra hard to be ready to begin operations. As a result of the IG audit, ETA agreed to provide immediate technical assistance to the 9 entities considered not likely to be able to begin operations effectively on October 1, 1983. ETA also agreed to review all entities during the first few months of JTPA operations, to determine if draft procedures and controls were adequately completed, planned procedures and controls were adequately developed, and all necessary systems were implemented and working effectively.

In response to the IG's report, ETA has determined that nearly all critical state systems have been developed. ETA conducted a state-by-state follow-up during the 9-month transition phase and found that "draft and planned procedures had been completed and put in place." In the instances where deficiencies were found, ETA advised us that recommendations were made and assistance was provided as necessary. However, the follow-up did not include a review to assure that the procedures had been fully implemented and were working effectively, as recommended by the IG.

In addition to this review, ETA and the IG conducted a joint training session on fraud, waste, and abuse for state JTPA

representatives. The purpose of the session was to inform state program administrators about the IG's experiences and about the types of fraud, waste, and abuse found.

We believe that these measures, especially the IG's review of the states' JTPA system designs, are very positive. ETA's follow-up on the states' progress in correcting the system design weaknesses identified by the IG is important in assuring the effectiveness of JTPA. While each of these front-end efforts are commendable, the test of their usefulness is whether the systems are actually operating as intended.

CONCLUSIONS AND OBSERVATIONS

Our analysis disclosed that most of the CETA fraud and abuse occurred in Title II, and specifically in the services for the economically disadvantaged which included activities such as classroom and on-the-job training. It was most often committed by employees of the organization that provided the training and services.

We found that the fraud and abuse problems that hampered CETA were due largely to poor internal controls within the organizations providing CETA services, especially in accounting and reporting. While JTPA differs from CETA in some aspects, under both, funds are spent by local service providers. We believe it is important to assure that adequate internal control systems are developed and implemented at all levels early in JTPA programs in order to prevent fraud and abuse rather than only to respond to problems after they arise.

The inspector general has recognized the need for prevention and made a positive step by conducting an audit of state JTPA plans just prior to the implementation of the program. These reviews pointed out many weaknesses in the states' plans to monitor controls at the service delivery level. The IG recommended that ETA review all the states during the first few months of JTPA operations to determine whether planned procedures and controls were adequately completed and whether all necessary systems were implemented and working effectively. ETA has followed up on the IG's reviews and determined that nearly all critical systems have been developed. Labor must now assure that its future monitoring efforts verify that the states' procedures to review the adequacy of subgrantee controls are in place and working effectively.

AGENCY COMMENTS AND OUR EVALUATION

In responding to our draft report, Labor said that it is important to be clear that the inspector general's survey evaluated state systems during the planning stage and that subsequent follow-up by ETA showed that draft and planned procedures and controls had been completed and put in place. Labor also stated that in the few

instances where deficiencies were found during the follow-up, recommendations were made and assistance was provided as necessary. Our report has been amended to include additional detail on ETA follow-up actions.

Labor also indicated that a compliance review system that is responsive to GAO's concerns about future oversight is being established by ETA. The system will address pertinent functions such as financial and cash management, state monitoring systems and audit plans, management information systems, procurement management, program limitations, eligibility determination, and grievance procedures. Labor further stated that because the administration of JTPA is essentially a state function, its review mechanism and guides focus on state systems and procedures to assure compliance. ETA does plan, however, to conduct sample reviews at the service delivery level to verify that the states' requirements are in fact in place and functioning. We agree with this approach and stress that ETA must do sufficient testing at the service delivery level to determine whether the states are fulfilling their responsibilities to assure the adequacy of internal controls at the service delivery level.

Labor also suggested it might be helpful to sort out generic problems of management and control from those that are peculiar to particular CETA titles and types of programs, such as classroom training or work experience. ETA suspects that such an analysis might provide different insights into the precise nature of past CETA problems and parallels to JTPA. However, our analysis of management and control problems for cases in the classroom training or work experience programs showed that the same underlying causes were evident with accounting and reporting weaknesses representing the greatest percentage of weaknesses found--78 percent.

With regard to our comments concerning the weaknesses in the IG's fraud data base, Labor responded that the IG system has been refined to ensure that the type of fraud or abuse that occurs is accurately classified and cases are tracked through final disposition. Labor also stated that our suggestion concerning enhancing the IG fraud data base by including cases investigated by state and local officials had merit and could be handled by the data system. However, Labor officials indicated that there was no feasible way of becoming aware of fraud cases and capturing the data unless the Labor IG is involved in the investigation.

While we realize that it would be difficult to obtain information on every case, we believe the IG data base would be enhanced if information on JTPA fraud and abuse reported to him and investigated by others was included. Procedures establishing ETA's incident reporting system require the states, service delivery areas, recipients, subrecipients and Labor officials to report all instances of JTPA fraud and abuse to the Labor IG. This system and

other sources of information could provide leads on JTPA fraud and abuse cases investigated by others that could be monitored by the IG.

Labor also suggested some minor changes to improve the clarity of the report which we have incorporated.

APPENDIX I

APPENDIX I

WILLIAM V. ROTH, JR., DEL. CHAIRMAN
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United States Senate

COMMITTEE ON
 GOVERNMENTAL AFFAIRS
 SENATE PERMANENT SUBCOMMITTEE
 ON INVESTIGATIONS
 WASHINGTON, D.C. 20510

December 20, 1982

Honorable Charles A. Bowsher
 Comptroller General of the United States
 General Accounting Office
 Washington, D.C. 20548

Dear Mr. Comptroller General:

As you know, the Permanent Subcommittee on Investigations, of which I am the Ranking Minority Member, is directed to examine, among other things, inefficiencies, fraud, corruption, and malfeasance in government operations, and syndicated and organized crime. The Subcommittee also has been supportive of improved federal law enforcement and strengthened anti-fraud procedures in government.

In light of the Subcommittee's jurisdiction, I would like to request that the General Accounting Office undertake an examination of fraud in federally-sponsored employment and job training efforts. I have special interest in the Comprehensive Employment and Training Act (CETA).

CETA, which will soon expire, was the largest and most costly employment and job training program in history. Estimates indicate that from 1975 to 1982, total CETA funding was more than \$54.7 billion.

The Administration and Congress are responding to the present high unemployment rate with a new program, the Job Training Partnership Act. In addition, several other proposals have been put forward to deal directly with unemployment and job training. Some economists believe that high levels of unemployment will persist throughout the decade of the 80s. Should that occur, more employment and job training programs will be proposed and it is likely that some will be enacted.

It is my view that before committing the nation to additional employment and/or job training programs of great size, the Congress and the Executive Branch should make every effort to organize and manage such programs in such a way as to reduce to the extent possible their vulnerability to criminal exploitation.

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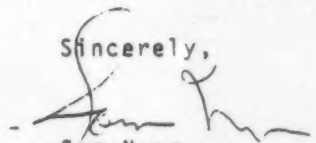
Even the most needed and most efficiently managed job training program will lose necessary public support if it is burdened by frequent allegations of fraud. That is a lesson the CETA experience taught. A serious handicap which CETA had to operate under was the many allegations of program fraud. Unfortunately, in too many instances, the publicity surrounding the reported fraud gave the entire program a negative image. Much valuable public support was lost. Many experts concede that CETA was damaged considerably by reported fraud.

The General Accounting Office, working closely with the Departments of Labor and Justice and other agencies, could make an important contribution to more effective employment and job training programs by undertaking a study of CETA's fraud problems. In a program as large as CETA, extending over eight years, certain forms of reported fraud may have been more prevalent than others. Similarly, it may be that certain areas of CETA were largely free from reported fraud. Patterns of this kind, detected, documented and then brought to the attention of Congress, would be useful in demonstrating how current and future employment and job training programs can be organized and managed to allow for a minimum of program fraud. For example, it would be useful to have GAO's evaluation of the fraud problems in CETA's Title II-B (training for the disadvantaged); Title IV-A (training for youth); Title IV-C (summer youth); Title VI (public service employment); and Title VII (private sector initiative). In addition, it would be informative to know if the CETA experience demonstrated fraud was less, or more, likely to occur in programs designed and managed by the private sector. Similarly, did it make a difference in terms of fraud if programs were managed at the state or local levels?

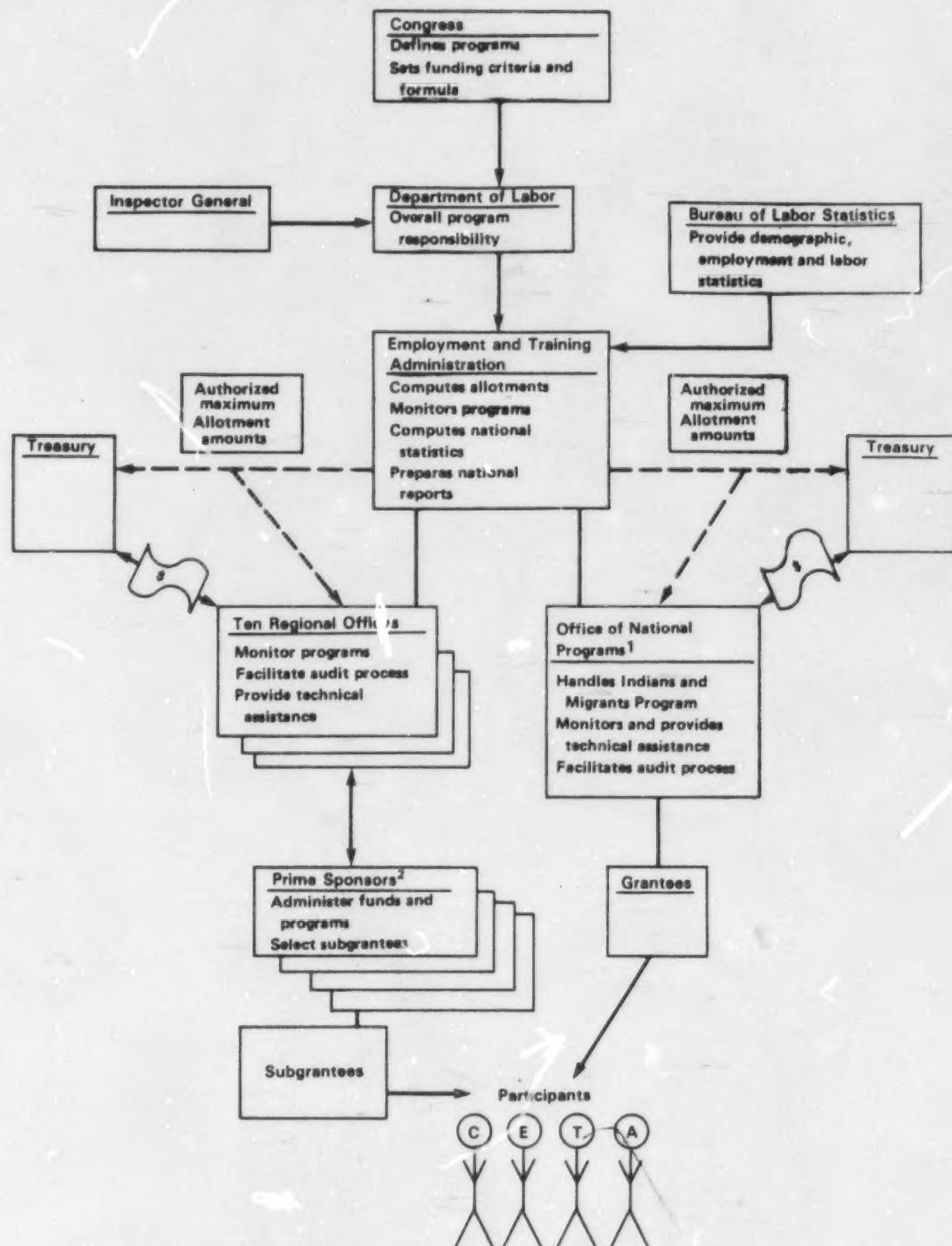
In preparation for this request, Fred Asselin of the Subcommittee's Minority staff met with Maurice Moody of the GAO Human Resources Division and Lawrence Sullivan of the Accounting and Financial Management Division to discuss, on a preliminary basis, the proposed GAO inquiry. It was felt that such an investigation should be limited to reported fraud only and that GAO's effectiveness in such an effort would be enhanced by having access to investigative files of the Labor Department.

Further questions about this request should be referred to Eleanore J. Hill, Minority Chief Counsel, at 224-9157.

Sincerely,


Sam Nunn
Ranking Minority Member

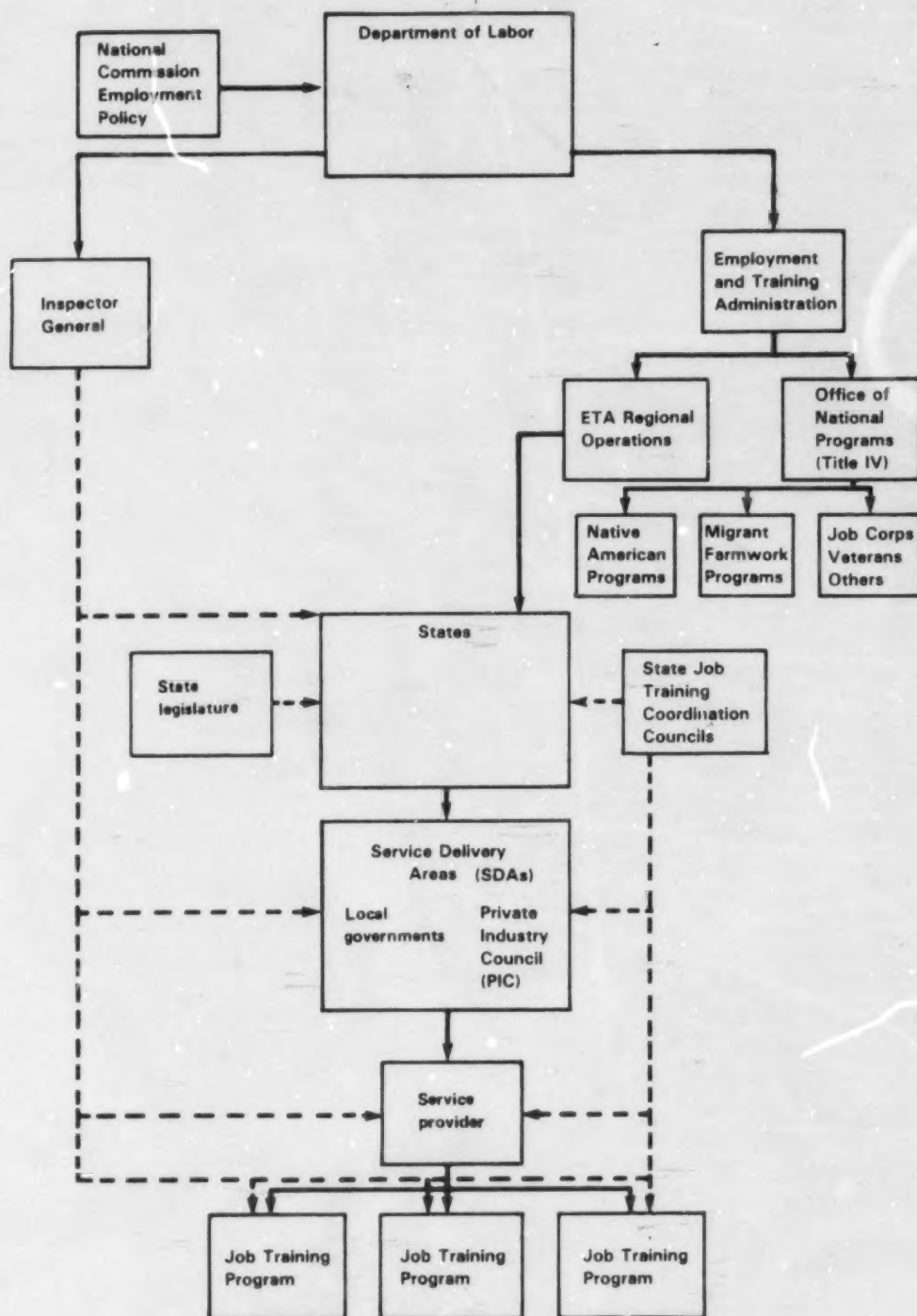
CETA PROGRAM ADMINISTRATION ORGANIZATIONAL CHART



¹ Though the Office of National Programs is a part of the Employment and Training Administration headquarters, it functions as a headquarters component and as a regional office for its programs.

² State, county, cities or consortiums of such entities.

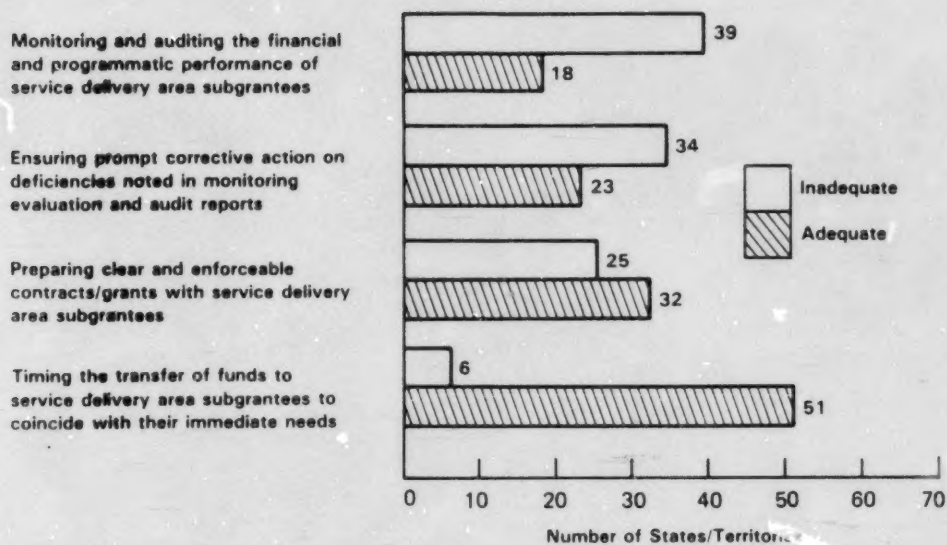
JTPA PROGRAM ADMINISTRATION ORGANIZATIONAL CHART



DEPARTMENT OF LABOR, EMPLOYMENT AND TRAINING ADMINISTRATION,
JTPA ALLOTMENTS TO STATES, 1984 PROGRAM YEAR
(TITLES II-A AND III) AND SUMMER PROGRAM (TITLE II-B)

	<u>Title II-A</u>	<u>Title II-B</u>	<u>Title III</u>	<u>Total</u>
Alabama	\$ 45,718,867	\$ 16,599,358	\$ 4,079,060	\$ 66,397,285
Alaska	4,702,878	1,775,415	296,493	6,774,786
Arizona	24,071,745	8,776,397	1,900,800	34,748,942
Arkansas	18,543,748	7,189,673	1,340,825	27,074,246
California	206,967,087	75,371,390	18,211,123	300,549,600
Colorado	19,964,704	7,285,204	1,603,294	28,853,202
Connecticut	16,990,435	8,311,427	1,383,095	26,684,957
Delaware	4,702,878	1,775,415	303,277	6,781,570
Dist. of Columbia	6,164,813	6,746,288	541,283	13,452,384
Florida	68,059,421	24,927,300	5,521,134	98,507,855
Georgia	36,691,694	13,843,092	2,601,742	53,136,528
Hawaii	5,475,161	2,279,027	342,631	8,096,819
Idaho	7,899,117	2,885,806	635,620	11,420,543
Illinois	104,953,189	37,980,866	10,866,051	153,800,106
Indiana	46,838,441	17,450,907	4,810,706	69,100,054
Iowa	18,910,217	6,893,857	1,853,741	27,657,815
Kansas	11,914,392	4,465,938	924,805	17,305,135
Kentucky	32,658,550	11,933,738	2,680,337	47,272,625
Louisiana	37,972,870	13,877,463	3,088,379	54,938,712
Maine	8,039,947	3,282,930	637,866	11,960,743
Maryland	27,289,918	10,515,210	2,310,060	40,115,188
Massachusetts	36,182,469	16,839,184	2,902,123	55,923,776
Michigan	103,925,839	37,478,242	11,578,000	152,982,081
Minnesota	27,178,542	9,913,311	2,465,109	39,556,962
Mississippi	24,295,227	8,916,856	1,932,727	35,144,810
Missouri	36,008,001	13,959,367	3,242,489	53,209,857
Montana	6,016,550	2,207,122	457,198	8,680,870
Nebraska	7,707,682	3,147,874	574,908	11,430,464
Nevada	7,475,521	2,703,689	753,523	10,932,733
New Hampshire	5,194,295	1,898,617	374,280	7,467,192
New Jersey	49,504,570	21,762,233	4,503,918	75,770,721
New Mexico	11,408,864	4,193,889	818,114	16,420,867
New York	123,452,151	50,848,855	10,422,943	184,723,949
North Carolina	44,786,303	16,366,076	3,650,676	64,803,055
North Dakota	4,702,878	1,775,415	185,629	6,663,922
Ohio	102,687,464	37,111,204	11,538,077	151,336,745
Oklahoma	16,879,681	6,268,877	1,317,932	24,466,490
Oregon	24,002,603	8,713,064	2,350,768	35,066,435
Pennsylvania	102,848,422	37,306,913	10,823,137	150,978,472
Puerto Rico	60,360,805	22,269,885	3,391,510	86,022,198
Rhode Island	7,804,484	3,140,596	669,235	11,614,315
South Carolina	28,042,343	10,222,019	2,315,906	40,580,268
South Dakota	4,702,878	1,775,415	206,188	6,684,481
Tennessee	43,949,827	15,992,744	3,805,859	63,748,430
Texas	93,620,142	34,374,879	6,719,377	134,714,398
Utah	9,249,966	3,389,474	758,998	13,398,438
Vermont	4,702,878	1,775,415	225,398	6,703,691
Virginia	32,317,888	12,625,007	2,395,540	47,338,435
Washington	38,329,076	13,883,123	3,828,532	56,040,731
West Virginia	21,433,067	7,765,585	2,241,181	31,439,833
Wisconsin	43,147,634	15,599,138	4,260,996	63,007,768
Wyoming	4,702,878	1,775,415	263,359	6,741,652
American Samoa	350,026	55,003	31,038	436,067
Guam	1,457,238	670,830	129,217	2,257,285
Northern Marianas	125,000	25,730	11,084	161,814
Pacific Trust Territories	1,285,908	74,374	114,025	1,474,307
Virgin Islands	1,781,828	380,370	157,999	2,320,197
	<u>\$1,886,151,000</u>	<u>\$711,372,489</u>	<u>\$167,250,000</u>	<u>\$2,764,773,489</u>
Undistributed				55,750,000
Native Americans				13,176,511
Total				<u>\$2,833,700,000</u>

**WEAKNESSES IN STATE SYSTEMS FOR OVERSIGHT
OF SERVICE DELIVERY AREA JTPA OPERATIONS
(57 STATES/TERRITORIES)***



*Includes the fifty states plus the District of Columbia, the Commonwealth of Puerto Rico, American Samoa, Guam, Northern Mariana Islands, Trust Territory of the Pacific Islands and the Virgin Islands.

Source: Individual state audit reports issued by the Department of Labor Inspector General after the audit of the states' JTPA system development.

U.S. Department of Labor

Assistant Secretary for
Employment and Training
Washington, D.C. 20210

AUG - 3 1984

Mr. Richard E. Fogel
Director
Human Resources Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Fogel:

This is in response to the General Accounting Office (GAO) draft report titled, "Strong Internal Controls at Service Delivery Level Will Help Prevent CETA-Type Fraud and Abuse in Job Training Partnership Act Programs." The Department of Labor (DOL) welcomes the opportunity to provide comments and additional information on this subject.

With reference to the Job Training Partnership Act (JTPA) activity, it is important to be clear that the Inspector General's (IG) survey during the summer of 1983 looked at the status of systems during the planning stage and prior to program implementation. Subsequent followup by the Employment and Training Administration (ETA) on a State-by-State basis during the 9-month transition period did find that draft and planned procedures and controls had been completed and put in place. In the few isolated instances where ETA found deficiencies, recommendations were made and assistance provided as necessary.

Furthermore, ETA has now established a compliance review system which is responsive to GAO's concerns about future oversight efforts. This mechanism provides for periodic Federal review of critical systems in each State. A number of review guides to be used by Federal staff have already been issued, and the remainder will follow shortly. Guides which are most pertinent to the kinds of concerns raised by GAO include financial and cash management, State monitoring systems and audit plans, management information systems, procurement management, program limitations, eligibility determination and grievance procedures.

Since the administration of JTPA is essentially a State function, within the parameters of the Act and regulations, the review mechanism and guides focus on State systems and procedures to ensure compliance. They do, however, provide for sample review at the service delivery area to verify that the State's requirements are, in fact, in place and functioning.

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With reference to the draft report's discussion of the frequency and types of fraud and abuse under the Comprehensive Employment and Training Act (CETA), ETA has suggestions that might make that analysis more useful. The GAO may want to consider identifying the relative sizes of the programs during the Fiscal Year 1981 and 1982 period from which the sample of fraud and abuse cases was drawn. In addition, in categorizing the types of CETA fraud and abuse, it would be helpful to sort out generic problems of management and control from those which were peculiar to particular CETA titles and types of programs (e.g., classroom training, work experience). It is ETA's suspicion that such analyses would provide some different insights into the precise nature of past problems and parallels to JTPA.

With regard to the draft report's comments concerning the Office of Inspector General's fraud data base, it should be noted that the system that had been established in 1979 has been greatly enhanced. The current IG system has been refined to ensure that the type of fraud or abuse that occurs is accurately classified and tracks a case through to its final disposition.

The report also suggests that the IG data base on fraud cases could be enhanced for analytical purposes by including JTPA cases initiated by State and local officials. While this suggestion may have merit and our data system is capable of handling such information, there is no feasible way for our being aware of fraud cases and actually capturing the data unless we have become involved in the investigation. Currently, State and local investigative agencies do not maintain case data by Federal act violated, and we know of no way to force them to do this. Additionally, GAO's auditing standards do not require external auditors to report any findings of fraud to the DOL, so there is not a readily usable existing information mechanism. (See GAO note on next page.)

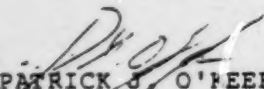
Finally, the Department suggests a few minor changes which would improve the clarity of the GAO report. They are as follows:

- Page 3 - The language on selection of service providers appears actually to relate to the selection of the grant recipient and administrative entity at the service delivery area level. How individual service providers are to be chosen is determined by the agreement of the Private Industry Council and local elected officials.

- * Page 5 - The report refers to "Labor approved State operational plans." The only State plan which DOL sees is the Governor's Coordination and Special Services Plan (GCSSP). The GCSSP, which is checked for overall compliance with the provisions of the Act, is not really an operational plan.
- * Appendix IV - The State allotment list includes figures for the 1984 Summer Program (Title II-B) and for Program Year 1984 (Titles II-A and III), rather than for all of Fiscal Year 1984 as indicated in the heading.

If you have any questions or would like to discuss any portion of these comments, please contact appropriate DOL staff through your usual channels.

Sincerely,


PATRICK J. O'REEFE

Deputy Assistant Secretary of Labor

GAO Note: The GAO standards for financial and compliance audits do require the auditors' reports to include "indications of fraud, abuse, or illegal acts found during or in connection with the audit." Further, it is required that "Written audit reports are to be submitted...to the appropriate officials of the organizations requiring or arranging for the audits.... Copies of reports should also be sent to other officials who may be responsible for taking action and to others authorized to receive such reports." (See Standards for Audit of Governmental Organizations, Programs, Activities and Functions, 1981 revision, GAO, pages 28 and 27 respectively.)

In addition, the implementing regulations for programs under the Job Training Partnership Act require that "The State shall submit the audit report(s) covering all Title II and III funds received by the state, to the cognizant Federal audit agency or the Inspector General, of the Department, as appropriate, when completed." (See 20 C.F.R. 629.42(b).)

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